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Putting Farming on a Modern Business Basis

New York, December 3, 1920.

J. C. MOULDER, *Secretary*,
The Kansas State Board of Agriculture,
Topeka, Kansas.

Dear Sir:—

The world at large had not given much thought to the farmer and what he was doing for it until the great World War. Then it was learned that the farmer was one of the most vital factors in the success of the war, because the world had to be fed.

After the war, the high cost of living becoming acute, soon brought vividly to every one that farming was a matter in which not only the farmer was interested, but, that the production and distribution of his products were matters of vital and grave concern to the dweller in the city.

I felt highly honored to be asked by your board to appear before it and give my views regarding some of the problems confronting the farmer in the marketing of his product. As I stated at that time, being unfamiliar with the subject, I preferred to see the problem and study it at closer range before giving any opinion upon any phase of it. The subject has been given so much consideration not alone by the various farm organizations, but by the Departments of Agriculture of the various states, and the Federal Government itself, that I hesitate to bring forward any suggestions.

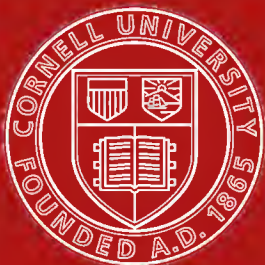
Present Critical Market Conditions

Before going into the subject, it might be well to call attention to the present critical conditions in the market for commodities in the world.

The congestion in marketing is one of the prime reasons why commodities are selling, in many instances, below their present cost of production.

During the war various quantities of commodities were cut off from normal markets owing to the lack of transportation by sea and the inability to finance. Upon the United States devolved the necessity not alone of financing the major part of the Allies' demands, but also furnishing large amounts of raw materials and finished products. Thus our agriculture and industries were greatly stimulated. Even after the war there was still available to many of the Allies some of the credit extended to them during the war, which they used for purchases. This, together with the credit the Allies themselves could raise, continued the buying movement for necessities, and gave a temporary appearance of a continuance of the absorption of our products in the usual volume. But after the first great rush to some extent was satisfied, it soon became evident that the finances of our former consumers were being curtailed and that there was a necessity to husband resources. They also commenced to supply some wants from home production.

The ordinary trade routes through which we marketed our products have not been reopened, and we are witnessing a gradual curtailment of the purchasing power of our former customers. The markets of the world will not be reopened until we have peace, and until Germany's payment for reparation is fixed. This, in my opinion, is the most important factor in the revival of our agriculture and industry.



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Restriction of European Demand

Europe, and particularly the Central Empires, were among the largest buyers of raw materials from the United States and the rest of the world. All European countries, and particularly the Central Empires, have been restricted in their ability to buy, because of the non-determination of the reparation which the Germans must pay. The Allied Governments, in varying degree, are depending upon what they receive from Germany to rehabilitate their own impaired financial and industrial structures. The Germans have to pay practically all the damages that will be assessed against the enemy states. The Germans will not resume purchases on the former scale until they know what bill will be determined against them. They feel that, if they proceed to buy and revive their industries, the prosperity of their country will increase and that the reparation will be correspondingly increased. So it is that the commerce of those who will receive payments from Germany, and the commerce of Germany itself, which makes the payment, will both have to wait until the damage has been definitely assessed against her.

The principal recipient of payments from Germany will be France. And France will not in justice to her people accept a reasonable payment unless she can be secured against what occurred in the Franco-Prussian and World War.

Upon the termination of hostilities, ships were released for the transportation of commodities such as wheat and wool from Australia and the Argentine. These commodities, previously cut off by the war, are now coming into competition with our products in the markets of the world—markets limited in their consumption and buying capacity by the non-determination of the reparation which Germany will be called upon to pay.

The disturbed condition of the world

markets, and the non-reopening of old trade routes have resulted in the serious situation confronting us. Production of the mines and mills can be curtailed although it would involve great loss to the operators and suffering to the workers in these industries. The corporations and individuals owning and operating mines and mills have facilities for financing, which, to a certain extent, enable them to meet the situation. Most of them, in addition to the resources which they have accumulated, have allied with them great banking concerns, which can aid them in reaching whatever credits are available.

The Farmer's Lack of Financing Facilities

In the case of the farmer, we have parallel conditions with the exception that he is scattered and has not connected with his product the same facilities for financing or meeting the new critical conditions. The farmer can vary but not curtail production without injury to his farm and without very grave injury to the community. The curtailment of copper, steel, lumber or manufactured products for six months or a year, or even for a longer time, may be a very serious injury to the community, but it can not begin to have the consequences that would follow a curtailment of agricultural production.

The farmer now finds himself in the predicament of having a crop partly cut off from its usual market, former trade routes limited, and unable to finance himself unless he is willing to sell his products at very great sacrifices, in many instances well below the cost of production. This can not be permanently remedied until the trade routes of the world are reopened. They can be reopened only through peace and the determination of a reasonable sum for Germany to pay under the Treaty.

If necessary credit is not extended so that the farmers may market their products according to consumption needs, and secure a reasonable return for their efforts,

they will suffer very severely, and will restrict their operations. And the consumer, who is vitally concerned in the maintenance of a normal flow of products, will suffer in the end.

There are certain things which must be done, it seems to me, before a success can be made of coöperative marketing, which I desire at once to approve wholeheartedly. While I do not presume to be an expert on the subject, I would like to present certain suggestions for your consideration whether coöperative marketing is undertaken or not.

Producer Must Be on a Par With Buyer

The theory of my recommendations is that, in the marketing of his products, the producer must be placed on a footing of equal opportunity with the buyer.

First (and this is the corner stone of the whole subject matter) I believe that sufficient storage warehouses for cotton, wool and tobacco, or elevators for grain, must be provided at primary points to carry the peak load in the distribution of the product. These warehouses or elevators should be preferably under private ownership. But if private capital is not forthcoming, they should be under State ownership. But under any condition, they should be under State or Federal supervision.

The question as to who should own or build these elevators and warehouses requires some thought. But that adequate warehouses and elevator facilities of the most modern type should be established is beyond question. The very well being and prosperity of the different states and all of their citizens depends upon the proper marketing of their major products. The modern warehouse makes possible the handling of agricultural commodities at reduced costs because of the saving that could be effected in insurance, financing and marketing. It also will play an immensely important part in the develop-

ment of a practical plan of coöperative marketing.

When the products are delivered to the warehouses or elevators, they should be properly weighed, graded and certified by licensed weighers or graders. For the lack of a better term, I shall call this process a "certification" of the product. This certification should be so hedged about that underpayment, overcharging and unfair grading will be avoided. It will be the basis of sale, or, in case the producer does not desire to sell, it should be, and could be, made the basis on which he could borrow money until he is ready or willing to sell.

Farmer Baffled by Simultaneous Lack of Credit and Transportation

As a rule, the farmer's products move to the market when there is a great congestion both in the money market and in traffic conditions. This operates to his disadvantage in the sale of them. Arrangements, therefore, should be made so that he can borrow a reasonable amount properly margined upon the products of his farm. This will enable him to sell when the market will take them whether he sells as an individual or through a coöperative movement.

In none of my remarks do I wish to imply improper or sinister motives to any of the factors that take part in the marketing of our crops. They would not have survived if they had not been fulfilling a useful purpose. There may be too many of them; but most of them are performing a service. No changes should be made or contemplated that would destroy these factors, or any of them, unless there is something better established to take their places. But unquestionably the farmer must be placed in a position to deal on an equal basis with those who buy and market his crops.

Preparations are made each summer for the movement of the crops in the fall.

Yet almost every year we run into difficulties. This year they are accentuated by world conditions and the huge promotion, speculation and hoarding which took place during 1919 and 1920. Bankers, financiers, promoters, speculators and jobbers, with their many facilities and more marketable securities or warehouse certificates, can always obtain more and cheaper credit than the farmer.

Credit Should Be Allocated to Agriculture

If possible, a certain percentage of the credit facilities should be set aside for the movement of the crops. In other words, our banking system should be so adjusted that not less than a certain percentage of the credit facilities are held in reserve for the movement of crops. In a way, it is already being done. But the farmer, the merchant and the manufacturer each has to bid for his share. Dealers and jobbers usually have little difficulty in securing credit to carry the very crops and products which they have bought from the farmer, but the farmer frequently is unable to obtain the credit he needs in order to finance the marketing of his commodities in orderly fashion. At this writing I am not certain whether it is possible and wise to make it mandatory upon the banks to conserve a sufficient portion of their credit during a certain period for financing the movement of crops, or, in other words, give a priority to credit for moving the crops. In fact, many of the best bankers are already doing this voluntarily, recognizing its wisdom, and the obligations of their office. I may add that my personal contact with the bankers of the country convinces me that as a class they feel the responsibility of their calling and its opportunities for constructive service.

New Agricultural Financing Corporations Required

In connection with the establishment and operation of the necessary ware-

house facilities, institutions or corporations could be established for the purpose of making loans on the warehouse receipts. They should be large enough and so officered that they would gain the confidence of the investing public. Their capital stock should be open to public subscription. They could be made coöperative; but they need not necessarily be so. They could advance money to the individual, just as the banks do now for any time from thirty days up to six months or a year. They would not take the place of the present arrangement wherein the merchant, the banks, and the Federal Reserve system finance the marketing of the crop, but would supplement it. The finance corporation would deposit in its treasury in trust the farmers' notes maturing at various dates, and secured by the warehouse receipts. It would then issue against the notes bearer certificates, as is now done by the large corporations in the issuance of short time notes, in denominations of \$100, \$500 and \$1,000. There would be no better short time investment or collateral than these obligations. The present process, wherein the farmer gives his note to the merchant, and the merchant his note to the local bank, and the bank sends it to the Federal Reserve Bank, amounts to practically the same thing. The only difference is that the secured bearer certificates would be in a negotiable form and would attract the private investor. There are large sums of money, even in the locality in which the production of the crop takes place, that would seek investment in small amounts, if it were made easy for investors to buy these negotiable, well-protected instruments. The finance corporation, being responsible for the repayment of the loans, would see to it that they are properly protected at all times. In other words,

investments in bearer certificates would be protected by the resources of the corporation plus the farmer's individual credit, plus the security of the warehouse receipt based upon a proper certification of the amount and grade of, and insurance on the product covered by it.

How the Proposed Scheme Would Work

For instance, a farmer might deliver to a warehouse so many bales of cotton or so many bushels of grain. He could either sell his product on the basis of the warehouse receipt, or he could use it to secure indebtedness to the merchant, who, in turn, could go to the banks as at present; or he could go to the finance corporation and borrow, let us say, at six per cent. or seven per cent., or whatever the rate might be, and thus be able to pay cash for his supplies. The corporation in turn would issue its own bearer certificates carrying a rate of interest which would allow a margin sufficient to cover the necessary expenses of the corporation and earn enough profit to attract the necessary capital. The corporation would sell the bearer certificates in denominations of \$100, \$500 or \$1,000 either to private investors or to the banks or financial institutions all over the country. This process, with the corporation's capital as a revolving fund, can be continued and repeated to the extent that good business and financial judgment dictate. As the certificates become due, they would be forwarded back to the corporation which would meet them. This does not do away with the present method of financing, but only makes available for the marketing of agricultural commodities a large amount of money in the hands of private investors, who know, or would soon know, how safe this form

of investment would be. There could be nothing more secure or more liquid than the bearer certificates based upon carefully guarded advances on farm products.

Statistics of Demand Are Necessary

The Government, through the Department of Agriculture, now estimates at frequent intervals during the growing season the probable condition of the crops and yield of the different farm products so that everyone knows approximately the amount of wheat, corn, oats, barley, rye, cotton, etc., that the farmer produces. The buyers and distributors are thus fully informed by the Government. The farmer, on the other hand, does not always have the same information regarding the demand for consumption as the buyers and distributors have of the output of the farm. In other words, he is not on an equal footing with the buyer.

I believe that there should be collected under the Department of Agriculture by the best talent obtainable full information from all the markets of the world, foreign and domestic. This information should be tabulated, summarized, and made available at frequent intervals—daily, semi-weekly or weekly. It should be posted at the post-offices or printed in certain publications so that the producers may be as fully informed regarding the conditions of the selling market as the buyers and distributors are now informed regarding the condition of the buying market. The collection and dissemination of these facts will tend to avoid wide fluctuations in the market, and make it possible for the producer to deal with the buyer on an equal basis in the disposition of his products. Why should not the Government's activities along these lines be greatly enlarged so that the producer will have the same character and class of information that is available to the buyers and distributors?

The producer is at a serious disadvantage when he does not know the conditions surrounding the consumption of his product. Yet these facts are in the possession of the great buyers and distributors of agricultural commodities.

A Summary of Suggestions

To sum up, if the suggestions I have made were adopted, the farmer would find himself in the following position: First, he would have adequate, modern storage facilities under public supervision. Second, his products would be certified as to grade and amount by licensed graders and weighers. Third, the certificates issued by the graders and weighers would be used as the basis of sales and purchases, as well as the basis of financing. Fourth, a fair share of the credits of the banking and financial institutions of the country would be reserved during certain periods for crop movement. Fifth, all market information would be collected and made available through trained experts by the Agricultural Department—this information to be of the kind and character now in the possession of buyers and consumers of the farmer's products. Sixth, a new source of credit, the private investor, would be reached by the establishment of financing corporations to make loans on warehouse receipts.

This program, if put into effect, would, in my opinion, place the farmer in a position to market his crops advantageously whether he desires to do so individually or coöperatively.

One of the best discussions of the subject of coöperation in agriculture particularly for marketing purposes, is to be found in an article by J. Harold Powell, general manager of the California Fruit Growers Exchange, which has been published by the University of California (Circular No. 222). Mr. Powell points out very clearly some of the fundamental points which should be considered in

formulating plans for collective marketing and I can do no better than to quote some of his statements, which I append hereto.

Collective Marketing

Collective marketing is less difficult where it covers a comparatively limited area and a specialized crop as, for instance, in the case of the Fresno Raisin Growers Association or Citrus Fruit Growers Exchange of California. If all the wheat in Kansas were pooled for collective marketing, there still would remain the wheat of the other States, or other countries. If all the cotton of South Carolina or all the wool of Wyoming were pooled there would still remain the cotton and wool of other States and other countries. But coöperative selling of a product by communities or counties is advisable and possible, and would result in increased returns. Each community must organize according to local conditions and the character of the product to be marketed. This can gradually be extended to include larger areas and more units. The larger central organizations, on which the smaller units should be represented, should protect, direct, advise and coördinate these units.

I should like to emphasize the fact here that the system of distributing the products of the farm will be, and should be, changed only through evolution and not by revolution. For centuries we have built up a delicate machinery of production, distribution, and finance, which cannot be ruthlessly and suddenly changed without injury to all parties concerned.

There is no doubt that the farmers could buy collectively certain staple commodities with advantage to themselves. But there are many things which they cannot buy to advantage coöperatively, especially where the question of individual taste is involved, such as clothing for men and women. The great question is whether the farmers will be better served by collective buying, taking all the risks in-

volved, than by the present system which involves paying a profit to those who undertake the risks. Some of the cleverest distributors and merchants, large and small, now find themselves faced with great losses on account of bad judgment in purchasing.

Care must be taken either in collective marketing or in collective buying that the power which would come into the hands of agencies established for these purposes is not abused. I believe that what the farmer is striving for is not an advantage, but merely that he shall receive the full benefit of the results of his labor. That he is entitled to this, all honest men must agree.

Collective buying ought to be confined, at least for the time being, to the staples. Doubtless the question of collective buying has come more to the front recently owing to the high prices and wide fluctuations that have prevailed. Before the farmer attempts collective buying, he must consider what he is endeavoring to replace, or whether he will really save anything by it.

Important Role of the Merchant

In many sections, the principal factor in the financing of the crop production and marketing is the country merchant, who makes advances or gives credit to the farmer until his crops are disposed of. Collective buying would result in the elimination of this most important factor in the situation without replacing it with better machinery unless the farmers through their savings are able to establish coöperative stores. These stores would have to make the advances now made, and take the risks now assumed, by the country merchant, who, after all is said, has been of the friendliest assistance, and has a sincere and sympathetic interest in the success of the farmer. The whole question revolves around the point brought out above as to whether the

farmer can be better served by collective buying, or by the present agencies. There is no doubt that where the farmers have the credit and cash resources, they can establish for their mutual benefit collective buying machinery.

A great difficulty in collective buying on a large scale is the financing of the project. This will require money, and a sufficient amount of it to buy in advance, when conditions are favorable, large quantities of the various staples needed. The necessary capital will have to be provided, to a considerable extent, by the farmers themselves. Any large scale project will require time and patience before it can be built up to the point where it will be a real benefit.

Reforms Should Be Gradual

The difficulties and opposition that the farmer is going to encounter in his efforts to secure, through coöperation, proper compensation for what he gives to the community will be greatly increased if he attempts too much at once. Many a good business venture has failed by undertaking too much at first. In many cases, we find that we started on the road to progress, reform or betterment only to discover that we have failed when we should have been successful. In most instances this is due to the desire to accomplish too much in too short a time. I recommend the Rochedale plan as a basis for coöperative buying, but believe each community will have to modify its beginning according to local conditions.

It is a very curious fact that in towns, counties, States, and even in the great Federal Government, there is a lack of concentration, and indeed much competition, in the purchase of the same class of goods or materials. There is no reason why a city or a State, or the Government itself, should not have one central purchasing agency, thus reducing overhead expenses as well as competition between

various departments. I hesitate to state how much saving there would be in such an operation. But the cost of government would vastly decrease. The savings alone would help amortize a large part of the outstanding obligations in a reasonable period.

During the war we had evidence of what the avoidance, even to a limited extent, of competition between the various departments in buying meant to the Government. The elimination of competition between the Allied and Associated Governments in neutral markets through one collective buyer saved them many hundreds of millions of dollars. The total saving to our Government by a system that was not functioning perfectly—it was being gradually improved when the armistice was signed—aggregated vast sums.

Urban Distribution

There is another phase of the problem of distribution which the city dweller may have to undertake and solve and that is the handling of products in the city. It has been claimed by many that the supervision of the marketing of coal, milk and bread is a matter of almost as much municipal concern as the supervision of water, light and street car service. It is in the transfer of products from the farm to the city dweller that the greatly increased price occurs. This, although vital to the farmer, is more the city dweller's problem. Of course, the whole question of marketing and distribution is vitally affected by transportation.

I could elaborate and go into greater detail in all these matters. But I have endeavored to make this statement as short as possible. The views outlined herein are presented for the consideration of those who are much more familiar with production and marketing. I have

discussed them with many who are familiar with the subject, and I am convinced that they are practical and feasible.

My investigations have led me to the conclusion that the farmer at present gets less results for his labor than any other member of the community. From this statement, I would except only the great teaching fraternity, and in that I include both educational and religious teachers.

I believe the things I have suggested can be done and should be done in the interest of the whole community. Further, they are only impossible to those who will not have them done. Some of them are now under advisement and contemplation not only by the Federal Government, but by many of the States and farm organizations. If they are desirable, it requires only united effort to bring them to a successful conclusion.

We sometimes hear much about the farmer's great profits, and his happier lot. The movement from the farms to the city sufficiently refutes this.

In closing, let me say that in working for a solution of this most important matter, we shall not find it either in an Aladdin's lamp or in any form of legerdemain. The only legislation needed will be that which grants the farmer an equal opportunity by opening wide all avenues of marketing, and for coöperative effort.

The great difficulty heretofore, it seems to me, has been the fact that the farmer has not been able to organize properly. But my contact with the movement for the improvement of agricultural conditions, has convinced me that there has been developed the type of men who can successfully organize and direct the farmers in their efforts.

Yours very truly,

(Signed) BERNARD M. BARUCH.

APPENDIX

Excerpts from

"Fundamental Principles of Coöperation in Agriculture"

By G. HAROLD POWELL

"A coöperative association is one in which the members form an agency through which they conduct their own business for their greatest mutual advantage. To be coöperative, it must be formed of producers exclusively, and managed by them, and the benefits must be returned to them in proportion to the patronage of each. The capital necessary to create the agency and its facilities should be contributed by the members in proportion to the use which each makes of it. Also, the capital contributions of each member should be kept progressively proportional to the individual shipments, or purchases, or other uses made of the agency, as nearly as this may be done." . . .

"There is a growing recognition of the economic need of organization by producers. The farmer, especially the small land owner, can no longer deal with his business problems as an individual because he now has to cope with organized industries in the production, distribution, and sale of his crops. If he is to meet these problems successfully in the future, he must join with his neighbors in forming an organization through which they can solve their common problems coöperatively, and he must have laws provided that will enable him to do this." . . .

"Experience shows us that a farmers' association that has been organized under the general stock-corporation laws is on an unstable foundation, not only because the stock can not be controlled, but also because of conflicts that may arise between the stockholders and the members." . . .

"Unless a coöperative association of producers is adequately and soundly financed by its own members, it invites disaster. Two kinds of capital are usually required: A permanent capital for buildings or other facilities and a working capital from which to advance money to the members before the returns are received from the crops, and to meet the running expenses of the organization." . . .

"A coöperative organization, if it is to be permanently successful, must grow out of economic necessity and must crystallize around a specific economic question. The reason for its existence must lie in some vital service which it is able to perform if it is to have strength enough to live in the face of the competition to which it will be instantly subjected. It will have to compete with existing organizations and this competition will be directed toward its elimination. It will be vigorously attacked and every conceivable form of misrepresentation will be leveled against it, and every weapon known to competition, fair or unfair, will be used to put it out of existence." . . .

"A coöperative organization should be founded on a specialized crop. The best results are obtained in coöperation when an organization is founded to handle a special crop and when the locality in which it operates is comparatively limited in area. When he steps outside his sphere as a producer, the average farmer does not often succeed except in the special agricultural industries that have been developed by men of unusual experience

and ability. Since each industry has its own individual problems to solve, its special difficulties to overcome, and its particular trade practices and connections with which to deal, an indiscriminate organization of growers is generally very unsatisfactory in practical results." . . .

"A large coöperative movement should be founded on independent local units which, for greater business efficiency, federate and form an agency through which they handle their common problems. This means that each unit builds a packing house or provides other facilities, employs a manager, installs the necessary equipment—the growers themselves thereby owning and directing their local units. The central agency is the coöperative whole and represents the personnel of the combined societies in their business and public relationships, but it must never be lost sight of that the central body must be representative of active, independent units, rather than an organization which owns and controls them." . . .

"State-wide corporations are being attempted in which the farmer becomes a stockholder. The central association then owns the equipment and facilities of each local unit and manages them, the farmer thereby becoming a part owner in local facilities all over his state. It would be impossible to overemphasize the unsoundness of such a movement from the coöperative point of view or the lack of stability which it presents as a business undertaking. This instability is due to the fact that no man takes as much interest or becomes as active in a situation removed from him as he does in his own local, individual affairs. It is necessary, in order to avoid confusion, to point out here that there may be cases in which, by establishing one or more general plants, under the management of the central association for the final finishing of their product, a group of local units may be spared the expense of each establishing a similar

plant. In that case it is apparent that the central association has merely become more serviceable to its local units and has in no way attempted to assume control over them.

"The activities of the central agency will, obviously, embrace all matters too large to be handled by the local units. It will, naturally, represent the local units in creating a national sales agency; in acquiring timber lands for the manufacture of box material; in advertising the product to the consumer under a trade mark under which the produce shall be sold and in establishing grading rules to cover the use of the trade mark; in handling transportation matters or legislation directly affecting them and in all other common problems that are connected with the primary purposes of the local units. But the central organization should never do those things for the local units which they can do efficiently for themselves. Rather should its underlying motive be to help the local units in the handling of their own problems; it should coördinate their activities, assist the weaker associations to grow, and, in its capacity as representative of their personnel as a group, give their industry dignity and business standing in the state and nation generally. It should never be overlooked that the strength of a coöperative federation lies in the vitality of its local units and that a central agency, formed in this manner, can be no stronger than its individual components." . . .

"There is no way in which the community spirit can so well be developed as by the formation of locally controlled units. The product of each community differs from that of every other because of climate, soils, altitude, or other environmental factors, and such community characteristics should be a local asset and should not be confused with that of any other locality." . . . "Each community

will become known by the quality of its produce and should use a separate brand of identification. This local brand will supplement the brand—or possibly the trade mark—of the central agency and will be the means by which the trade identifies the quality of the produce of different localities, while the brand of the central agency will become known to the public generally.” . . .

“The establishment of uniform grades for agricultural produce is one of the most

important questions confronting American agriculture.” . . .

“The future of coöperation rests not only upon the ability with which growers handle their business problems, but upon how well they meet the present, vital questions which are leading to world-wide social and economic unrest. A coöperative organization can not live for itself alone. It must scrupulously fulfill its public or social relationship as well as its relationship to its own members.”

